



Public Employee Retirement System of Idaho

PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO
607 North 8th Street
BOISE, IDAHO 83702

MINUTES
OF
MEETING OF RETIREMENT BOARD

The Board of the Public Employee Retirement System of Idaho met at the PERSI Administration Building, 607 North Eighth Street in Boise, Idaho at 8:35 a.m. February 24, 2004. The following members were present:

Jody B. Olson
Susan K. Simmons

Trustees J. Kirk Sullivan and Dennis Johnson were absent and excused. Trustee Pamela Ahrens joined the meeting at 8:40 a.m. Executive Director Alan H. Winkle, Deputy Attorney General Brad Goodsell, Financial Officer James Monroe, Chief Investment Officer Robert Maynard, and Management Assistant Joanne C. Ax were also in attendance. The electronic projection of materials and documents discussed in the meeting was handled by Betsy Griffith. Other persons attending portions of the meeting were:

Lucinda Smith
Bill Kincaid
Rod MacKinnon
Bruce Reeder
Drew Black
Dennis Fitzpatrick
Brian McGrath
Casey Maslonka
Charlie Brown
Matt Haertzen
Mike Boren
Chris Growney
Geoff Bridges
Brent Nye
Dona VanTrease
Richelle Sugiyama
John R. Doner

Mellon
Mellon
Mountain Pacific Investment Advisors
Mountain Pacific Investment Advisors
DB Fitzpatrick & Co.
DB Fitzpatrick & Co.
DB Fitzpatrick & Co.
DB Fitzpatrick & Co.
REAI
Endowment Fund Investment Board
Clearwater Advisors
Clearwater Advisors
Milliman USA
Boise Schools
IPEA
PERSI
PERSI

PORTFOLIO

Monthly Portfolio Update: Mr. Maynard discussed his investment report dated February 22, 2004, which was an update from a version previously provided to the Board. In the report and in his discussion, Mr. Maynard noted that the fund is essentially even since the last Board meeting, and is up 18.2% for the fiscal year to date. The economic data is about even with expectations, with jobs continuing to be weak and corporate earnings coming in at or above predictions. As a result, the market appears to be in a generally rising trading range for the time being.

All managers are either within their expected characteristics or have reasonable explanations for slight deviations. All managers are also performing within expectations given the markets. The Schrodgers EAFE Portfolio and Scudder global portfolio were successfully transitioned to the index funds, pending completion of the current manager search.

The emerging markets, international portfolios, global portfolios, and U.S. small cap indices have very good absolute performance, while bonds have the worst. Zesiger, Brandes, TCW and Cap Guardian have the best relative performance for the fiscal year to date, while Mountain Pacific and Rowe Price have the worst. PERSI's overall performance continues to outperform the underlying policy benchmarks (the indexed returns), although that outperformance appears to be slowing. PERSI's peer performance has reversed its poor showing of last March and is now as good as it has ever been over most time periods.

Mr. Maynard continues to monitor the fund and the basic strategy biases to determine if or when they should be changed. Responding to a question from the Chair, Mr. Maynard said only the Schroder International (EAFE) Fund was terminated; Schroeder continues to manage an Emerging Markets portfolio. When the Manager Search Committee chaired by Trustee Ahrens has selected new managers in April or May, the \$290 million from the termination of the Schroder EAFE portfolio and the Deutsche/Scudder global portfolio, along with other plan funds, will be reallocated and rebalanced.

DB & DC Review – Callan: Michael O'Leary and Janet Becker-Wold had provided detailed reports on both plans to the Trustees. They summarized the DB report with a slide presentation. PERSI's heavy equity policy benefited in the 2003 stock market recovery; the fund performed extraordinarily well in both absolute and relative performance for 2003. They reviewed total fund performance as well as that of individual managers. They have had meetings with PERSI managers, particularly those with pending concerns or where their knowledge of that manager is limited. They met with Mountain Pacific, Tukman and T. Rowe Price since the last Board meeting.

This was the first time the PERSI Board had received the quarterly report from Callan. Mr. O'Leary and Ms. Becker-Wold explained data, graphs and charts that were used to determine whether gains were the result of strategic bets, from manager performance or allocation. They will meet

February 25 with Barings in Denver. There was more discussion of the reasons for terminating the Schroder EAFE portfolio.

Mr. Maynard and Ms. Sugiyama had visited T.Rowe Price in London recently to discuss changes there. At TCW (SGAM), Mr. Saker's responsibilities have broadened, but Mr. Maynard is assured that the focus on our product is adequate.

Reviewing the DC plan data, Mr. O'Leary said market timing in and out of the international funds has affected that portfolio. Mr. Maynard's summary of the DC plan noted that during January, the Brandes International Equity Fund was a strong performer, outperforming relative to the MSCI EAFE index by approximately 200 basis points. Meanwhile, the Vanguard Growth & Income Fund, Dreyfus Premier Midcap Stock R. Fund, T. Rowe Price Small Cap Stock Fund, and SEI Stable Value Fund each lagged their respective benchmarks. All other funds, including the PERSI Total Return Fund, kept pace with benchmark returns. About 78% of assets in the Choice Plan continue to be allocated to the PERSI Total Return Fund.

The papers with Frasier Technology have been signed. They will open an office in Boise. In March, Mario Gianinni of Hamilton Lane will provide a review of the Private Equity portfolio for the Board. The annual review of the commercial mortgage portfolio is also in process. Results will be presented at the May meeting. The funding of Koll Properties will be done over the next month.

Manager Comments: The Chairman invited managers who were present to comment on the markets and the economy. Mike Boren said their firm is maintaining the posture that there will not be huge increases in interest rates for awhile. While increases are likely, he does not expect them to rise faster than generally anticipated. They look for a weaker economic recovery than many predict. Brian McGrath suggested that the commodity price increase relative to the CPI can show demand as it passes through the economy. He looks for strong increases in inflation in a couple of years. Rod MacKinnon noted that the cyclical businesses seem to remain vulnerable. He is optimistic about the economy and is hearing that suppliers are increasing prices, signaling slight inflation.

FISCAL

Update and Expense Reports: Financial Officer James Monroe had previously provided a memorandum dated February 17, 2004, to the Trustees which summarized current fiscal items of interest. He told the Board that the PERSI budget was passed by JFAC following the Governor's budget recommendation including the full enhancement decision unit for Business Process Re-engineering. It also includes the 2% increase in employee compensation as mentioned in the Governor's State of the State address. As with other agencies, there was no increase for general inflation.

Mr. Monroe reviewed the administrative and portfolio budget reports. The Chairman mentioned that the appropriation of the portfolio budget was to have been a temporary condition. It was put in place when our idea of investing internationally was thought to be inappropriate. The Chairman asked if having that budget appropriated by JFAC has hurt our investments.

Trustee Simmons said it has not so far, and that the Legislative Budget Office and JFAC continue to want to participate in setting that budget.

OLD BUSINESS

Approval of the Minutes: By motion duly made by Trustee Ahrens and seconded by Trustee Simmons, the Board unanimously approved the minutes of the January 27, 2004, regular meeting of the Retirement Board as submitted.

OTHER BUSINESS:

Trustee Ahrens was excused from the meeting at 10:03 to attend to other State of Idaho business.

FISCAL (continued)

Financial Statements: Senior Accountant Rhonda Yadon presented the quarterly unaudited financial statements for PERSI including the Base and Choice Plans and the Sick Leave Fund. The Chairman asked why the PERSI benefits paid increased by \$2 million per month. Rhonda responded that it was due in part from the COLA and mostly from the increase in the number of retirements.

MEMBERSHIP:

Disability Program Review: Membership Manager Judy Aitken and her assistant, Judy Shock, had prepared a report on the PERSI Disability Program. The number of applicants continues to increase. Chairman Olson asked if having a third party vendor handle the screening for us is more expensive than when we handled the program in-house. Ms. Aitken said it is. Responding to a question from Trustee Simmons, Mr. Monroe said we have a contract per case handled which makes the fee fluctuate. It has been between \$140,000 and \$120,000 annually. Ms. Aitken said the vendor, VPA, has the expertise to review the applications, has staff to be able to assign a different reviewer if a denial is re-submitted, while PERSI has neither. Chairman Olson said he is concerned about the number of applicants who drop out of the process and asked for feedback on the level of service. He said the board might consider bringing the process back in-house if necessary to properly serve members. Ms. Aitken said the number of applicants has increased considerably and additional staff would be needed in order to handle the program in-house.

EXECUTIVE DIRECTOR

401(k) Report – Lucinda Smith and Bill Kincaid of Mellon attended the meeting. Mellon handles the record-keeping for the Choice Plan. Mr. Kincaid reviewed data showing transfers in and out of various funds, distributions, loan activity and fees. If Pending Trade Restrictions are approved by the Board, implementation can be accomplished by May 2004. There has been a 10% increase in participation in the Choice Plan over last year. Plan assets were reported as \$129,624,113. Improvements to the website continue. Chairman Olson asked how many 401(k) clients Mellon handles. Mr. Kincaid said PERSI is their only public plan 401(k) client.

Legislative Review – Director Winkle provided an update on legislation affecting PERSI. Each Friday he provides a summary to interested parties including the Trustees and the memo is posted to the PERSI website. Chairman Olson thanked Deputy Director John Doner for the information he provided to the legislative committee to answer questions regarding the Business Process Review project.

Status Update: Mr. Winkle reviewed his February 19, 2004, memorandum to the Board which provided a summary of the projects in which PERSI is involved. Staff will meet with Mellon representatives today to express the need for urgency in implementing the Pending Trade restrictions.

OTHER BUSINESS:

Retiree Charlie Brown said he had spoken with Governor Kempthorne and told him how retirees appreciate the good appointments he has made to the PERSI Board.

Adjournment: There being no further business before the Board, the meeting was adjourned at 10:45 a.m.

Jody B. Olson
Chairman

Alan H. Winkle
Executive Director